



DATE ISSUED: October 19, 2005

REPORT NO. CCDC-05-41

ATTENTION: Honorable Chair and Members of the Redevelopment Agency
Docket of October 25, 2005

SUBJECT: One America Second Phase PT, LLC (block bounded by B, C and India streets and Kettner Boulevard) - Proposed Third Amendment to Exclusive Negotiation Agreement for the Agency-Owned "Air Rights Parcel" – Columbia Sub Area of the Centre City Redevelopment Project

REFERENCE: Site Map
Third Amendment to Exclusive Negotiation Agreement

STAFF CONTACT: Pamela M. Hamilton, Senior Vice President

SUMMARY

Issue - Should the Redevelopment Agency approve the Third Amendment to Exclusive Negotiation Agreement with One America Second Phase PT, LLC?

Staff Recommendation - That the Redevelopment Agency approve the Third Amendment to Exclusive Negotiation Agreement ("Third Amendment") with One America Second Phase, LLC, a Delaware limited liability company whose sole member is General Electric Pension Trust ("Developer") for the purchase and development of the Agency-owned "Air Rights Parcel" ("Parcel 5") on the block bounded by B, C, Kettner and India streets.

Centre City Development Corporation Recommendation - On September 21, 2005, the Corporation Board of Directors voted unanimously to recommend approval of the Third Amendment (Sadler, Johnson, LeSar, Raffesberger, McNeely, Champion-Cain, Maas).

Other Recommendations - None.

Fiscal Impact - The Agency purchased the subject property in 1996 for a price of \$2.2 million and has incurred significant costs in holding and maintaining the property since that time. An Exclusive Negotiation Agreement ("ENA") for purchase and development of Parcel 5 was entered into with the Developer in July 2003. That ENA reduced the Agency's participation in Association fees from

30% to 10% from January 15, 2003 through the later of the ENA's 300-day period of negotiations, or any extension of the period of negotiations. The First Amendment to the ENA extended the period of negotiations to January 1, 2005. The Second Amendment to ENA reduced the Agency's participation in Association fees to 0% effective January 1, 2005. The Association fees remain at 0% for as long as the ENA is in effect and would continue at 0% with the execution of a DDA.

BACKGROUND

Development of this block would advance the Visions and Goals of the Centre City Community Plan and the Objectives of the Centre City Redevelopment Project by:

- Completing development which is immediately adjacent to a safe, efficient and environmentally sensitive transportation system thereby increasing mass transit use (San Diego Trolley);
- Assisting in the development of a strong financial/commercial core; and
- Completing the orderly development of the originally-conceived two-block integrated America Plaza development to upgrade the quality of life.

The Agency purchased Parcel 5 of the two-block development generally known as America Plaza for redevelopment purposes as the site for the new Main Library. The City Council subsequently designated an alternate site for the Library. Parcel 5 is an "air-rights parcel" on the block bounded by B, C, Kettner and India streets which includes an easement in the garage beneath the parcel for 113 parking spaces. The existing Centre City Planned District Ordinance ("Centre City PDO") limits Parcel 5 to a Floor Area Ratio (FAR) of 8 which limits the gross square footage of development above grade to less than 522,368 SF; the minimum height is 125'.

The Developer purchased the other parcels which comprise the two-block America Plaza development on November 27, 2002. The Developer expressed interest in purchase and development of Parcel 5 in that Parcel 5 continues to have a negative impact on the appearance and activity/synergy of the overall America Plaza development.

The Developer and its architectural team of Solomon Cordwell Buenz and Associates, its engineering team of Magnusson Klemencic Associates, and with construction cost estimating by Roel Construction Company, completed its due diligence regarding the development potential of Parcel 5 during the term of the First Amendment to the ENA. It was the conclusion of the Developer that development of Parcel 5 is financially infeasible at the FAR of 8 currently assigned to the Site. The Developer concluded that an FAR of 10 (as proposed for the Site in the draft Community Plan Update) would be feasible. CCDC staff and Keyser Marston Associates agreed, after an analysis of the

FAR of 8 and FAR of 10 alternatives for the Site, that the FAR of 8 alternative would not meet the threshold returns for an institutional investor. From a design and density perspective, the Developer and CCDC staff agreed that the FAR of 10 alternative was preferable on the Site.

These conclusions were the basis for the CCDC Board's recommendation to the Agency, and the Agency's subsequent approval, of the Second Amendment to the ENA in February 2005, which provided for an extension of the period of negotiations to October 1, 2005. At the time, this extension was considered sufficient to permit the Developer and CCDC to assess Parcel 5's development potential following the adoption of the new Community Plan and Centre City PDO.

PROPOSED DEVELOPMENT TEAM

ROLE/FIRM	CONTACT	OWNED BY
Property Owner: One America Plaza PT, LLC	B. Bradford Barrett, President	General Electric Pension Trust
Proposed Developer: One America Second Phase PT, LLC	B. Bradford Barrett, President	General Electric Pension Trust
Project Manager: Sentre Partners, Inc.	Stephen B. Williams Matthew T. Spathas Tom Sullivan	Stephen B. Williams Matthew T. Spathas Michael P. Peckham

The ENA entered into with the Developer in July 2003 was recommended (rather than the issuance of a general Request for Qualifications/Proposals for Parcel 5) for the following reasons:

- Exclusive negotiations with the Developer had the potential of realizing the earliest and highest-quality development of the Site;
- The development of Parcel 5 is integral to the existing development on the two blocks. The Developer, as the Tower and Parking Owner on the two blocks, has certain design and use-approval rights for Parcel 5. As Tower and Parking Owner, the Developer has the ability to propose revisions to the Covenants, Conditions and Restrictions ("CC&Rs") governing the America Plaza parcels, and to offer use of the parking garage beyond the existing CC&Rs, to the advantage of Parcel 5;

- Structural retrofit of the garage will be required to support development of Parcel 5, an expensive and complex issue requiring coordination with, and construction easements from, the Tower and Parking Owner. Coordination is facilitated if the Tower and Parking Owner is the developer of Parcel 5; and
- The Manager of One America Plaza, Sentre Partners, has demonstrated through its excellent management of major office buildings downtown that it understands "place-making." This approach to the development of Parcel 5 would benefit not only the immediate vicinity but the entire Columbia Sub Area.

These reasons for entering into the ENA with the Developer remain true today.

PROPOSED THIRD AMENDMENT TO ENA

A Third Amendment to ENA is recommended which will extend the period of negotiations to February 15, 2006. The Third Amendment does not alter the requirement in the First Amendment that any DDA negotiated for Parcel 5 shall require a purchase price of not less than the Agency's actual out-of-pocket costs (excluding general overhead) for its purchase and management of Parcel 5. To date these expenditures exceed \$3 million. The ENA and its amendments do not confer any obligation on the part of the Agency or the City Council to approve any amendment to the Community Plan or Centre City PDO.

SUMMARY/CONCLUSION

Given the complexities of Parcel 5's integration with the two-block One America Plaza development, continuing negotiations with the owner of One America Plaza, particularly in light of the qualifications of the owner and its asset manager, holds the most promise for the appropriate and timely sale and development of Parcel 5.

Respectfully submitted,

Pamela M. Hamilton
Senior Vice President

Approved: Peter J. Hall
President

Attachments: Site Map
Third Amendment to Exclusive Negotiation Agreement